

AR30

1966 ANNUAL REPORT



Canada's All Canadian Company



SUPERTEST PETROLEUM CORPORATION, LIMITED



Operation of this new station at the busy intersection of Highbury Avenue and Trafalgar Street in London has already exceeded expectations.



SUPERTEST PETROLEUM CORPORATION, LIMITED

Canada's All Canadian Company

DIRECTORS

S. C. BACON
R. G. IVEY, Q.C., LL.D.
F. W. P. JONES
J. D. JUDGE
D. D. C. McGEACHY
W. H. McPHILLIPS, M.B.E. (*deceased*)
R. W. MITCHELL, M.B.E., Q.C.
F. J. MOORE
F. L. NORWOOD, F.C.A.
A. S. THOMPSON
JAMES G. THOMPSON
J. G. THOMPSON
D. G. WALLACE
LIEUT.-COL. D. B. WELDON, M.C.

OFFICERS

J. G. THOMPSON *Chairman of the Board*
JAMES G. THOMPSON *President*
S. C. BACON *Vice-President & General Manager*
R. W. MITCHELL *Vice-President & Secretary*
F. J. MOORE *Vice-President*
A. W. FARMILO *Vice-President*
F. L. NORWOOD *Treasurer*
C. C. SMITH *Assistant Secretary-Treasurer*

Manager

R. K. DAVIDSON *Ontario West*
C. J. ENGEL *Ontario East*
J. J. LEHMAN *Quebec Division*
S. W. MANLEY *Agencies*

Sales Region

Exploration & Production

Supertest Investments & Petroleum Limited

A. W. FARMILO *Vice-President and
General Manager, Calgary*



The Artist's sketch on the cover shows the new super station and restaurant on the Macdonald-Cartier Freeway (401 Highway), midway between Toronto and Montreal and a few miles west of Kingston at Interchange 99. This service centre opens in the spring of 1967 and will be one of the largest and most luxurious on this most important traffic artery.



JAMES G. THOMPSON
President

To the Shareholders:

On behalf of your Board of Directors, I am privileged to present this report of the operations of Supertest Petroleum Corporation, Limited for the year ended on December 31st, 1966. Operations were maintained at an active level in all phases of the company's business, and are reflected in the improved financial results for the year. Sales volumes and income increased in conjunction with the expanded activities, and earnings carried to surplus are \$1,964,373, as compared to \$1,767,207 in 1965.

Included with this report are the Consolidated Balance Sheet, Consolidated Statements of Earnings, Earnings Retained in the Business, and Source and Application of Funds, together with notes to the various accounts.

During the year dividends were paid quarterly at the rate of 5% per annum on the cumulative redeemable sinking fund preference shares, and semi-annually at the rate of 50¢ per annum on the ordinary shares and 5¢ per annum on the common shares of the company.



This new service station, completed at the corner of Elgin Street and Argyle Avenue in Ottawa, is a typical example of our extensive building and replacement programme.

Purchases of 2,648 preference shares for redemption were executed in the market to satisfy the sinking fund requirements of this issue in the period ahead.

Throughout the year under review, SUPERTEST proceeded with its building programme by undertaking the construction of a number of service stations on recently acquired properties, and a substantial number of existing stations were either completely rebuilt or were altered in a major way. This programme has been concentrated largely in the major metropolitan areas of Montreal and Toronto, where the greatest growth in markets is taking place.

The year 1966 proved to be a satisfactory one from a marketing standpoint and resulted, in part, from the building programme referred to herein. However, not to be overlooked is the fact that the improvement in our marketing activities stems in no small measure from a growing awareness on the part of today's motorist of the outstanding quality of SUPERTEST products, famous as they have been for almost half a century, and constantly improved by taking advantage of each forward step in the advancement of petroleum technology.

Although it is too early to fully assess the results of construction during the year, it is gratifying to report that sales generated from facilities built in 1965 are either meeting or exceeding our expectations. Your company intends to continue its building activities aggressively during the current year to provide further improved service station facilities and to continue strengthening its corporate identity.

Several very large truck units were added to the delivery fleet and a number of bulk plants were either reconstructed or relocated to further improve product handling and customer service.

Exploration and producing activities in Western Canada proceeded at a brisk pace throughout the year, and further progress in this phase of the business was recorded. The new prorating regulations in effect in Alberta, however, now favour large reservoir oil fields such as Rainbow and tended to curtail, and in fact to reduce, production from some of the fields in which your company has a substantial portion of its reserves. It is expected that the regulations will exert additional pressure on production from these reserves in the future. In spite of the adverse effects of the new regulations, income from oil and gas for the year was increased moderately through additional development drilling and the introduction of several pressure maintenance or secondary recovery schemes.

Sales of natural gas were increased in accordance with contract demands and the growth in consumption of this form of energy throughout the country. A small amount of sulphur was marketed for the first time, and although it is anticipated that production will increase, income from sulphur sales is not expected to reach substantial proportions.

It was reported last year that sales of natural gas from holdings in the Lac La Biche area of Alberta to Trans-Canada Pipe Lines would commence in 1968. It now appears that deliveries from this area to Eastern Canada will be delayed in view of the many difficulties which have been experienced by Trans-Canada in obtaining

Many stations, similar to this on Cartier Boulevard, Laval des Rapides, were completed in 1966. Considerably improved in appearance and layout, the design is very practical and has already found favour with motorists everywhere.



from Canadian and United States governments the permits required in order to begin construction of the necessary pipeline facilities.

Producing properties located at Oungre, Saskatchewan, and Camrose, Alberta, were sold during the year and additional acreage holdings were acquired in various areas of interest throughout Western Canada, along with a number of leases in the State of Montana.

1967 is expected to be another year of progress for your company. New service stations and product handling facilities planned for construction will help to further enhance the company's operations and expand the use of SUPERTEST products throughout Ontario and Quebec. Another active year is also planned in the search for oil and natural gas production.

To forecast earnings for 1967 would be difficult due to the many factors involved, including the continued rapid rise in costs of all kinds, together with direct, and indirect taxes and other levies brought on in no small degree by accelerated social legislation at all levels of government. These additional costs have to be overcome by increased sales and improved productivity before greater earnings can logically result.

On July 1st, during this Centennial year, we will celebrate 100 years of confederation in Canada. During the year every encouragement and opportunity is being given to Canadians to review the way that Canada has developed, to take pride

Experienced and loyal employees, dealers and agents have played no small part in our steady progress. Suitable recognition of long association is made each year to a substantial number of long term members of SUPERTEST.



in what has been accomplished, and to renew our determination and efforts to make the future of Canada even brighter than the past.

SUPERTEST, Canada's All-Canadian Company, has contributed to Canada's growth for almost half a century. It has grown from a single service station, located at London, Ontario, in 1923, to a company serving the major markets of Quebec and Ontario. In more recent years SUPERTEST has expanded its activities into Western Canada, with headquarters in Calgary, where it joined in the search for gas and oil. We of SUPERTEST, as Canadians, are proud of our company, its growth and the contribution it has made to Canada in the past, and we look forward to the future progress and growth of both Canada and SUPERTEST.

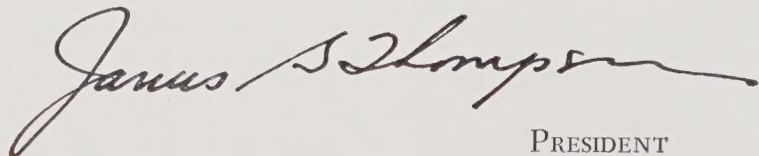
It is with regret that we report the passing late in the year of Mr. W. H. McPhillips, M.B.E., a Director since the inception of the company. The benefit of his counsel will be missed by his many associates throughout the company.

We also wish to record the retirement of Mr. M. M. Riley, a Director and Vice-President, after an association of more than 35 years, during which he was involved in practically all aspects of the growth and development of SUPERTEST.

We are happy to welcome Mr. D. D. C. McGeachy as a member of your Board, and look forward to his association in the future. Also during the year, Mr. A. W. Farmilo and Mr. C. C. Smith were appointed Vice-President and Assistant Secretary-Treasurer respectively. These men bring many years of experience in the industry and the company to their present positions.

The rewards of the year have been the result of the energy and loyalty of all members of SUPERTEST, and on behalf of your Board of Directors, I express to them all — dealers, agents and employees — our sincere appreciation. I should also like to thank our many shareholders, customers, and other friends of SUPERTEST for their support and highly valued patronage of your company's products and services throughout the year.

On behalf of the Board,

A handwritten signature in dark ink, reading "Janus S. Thompson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

PRESIDENT

April, 1967



SUPERTEST PETROLEUM AND SUBSIDIARIES

Consolidated Balance Sheet

Assets

Current Assets

	1966	1965
Cash	\$ 757,122	\$ 3,792,090
Short-term investments at cost and approximate market value	3,690,992	—
Government of Canada bonds, at cost (quoted market \$45,586)	45,356	44,160
Accounts receivable	7,233,919	6,026,274
Inventories of products and merchandise valued at the lower of cost and replacement cost	824,502	1,024,481
Prepaid expenses and supplies	425,155	204,515
	<u>12,977,046</u>	<u>11,091,520</u>

Refundable Deposits with Governments	170,576	200,169
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Investments

Mortgages and loans receivable	2,527,758	2,572,897
Investments, at cost	769,655	769,862
	<u>3,297,413</u>	<u>3,342,759</u>

Special Refundable Tax	106,366	—
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Property, Plant and Equipment, at cost (Note 1)	44,474,700	42,213,802
Less — Provision for depreciation, depletion and obsolescence	20,882,358	20,132,439
	<u>23,592,342</u>	<u>22,081,363</u>

Other

Deferred charges	222,645	257,783
Commission on preference shares	60,752	70,020
Goodwill	300,000	400,000
	<u>583,397</u>	<u>727,803</u>
	<u>\$40,727,140</u>	<u>\$37,443,614</u>



CORPORATION, LIMITED

Y COMPANIES

at December 31, 1966

Liabilities

Current Liabilities

	1966	1965
Accounts, payable and accrued	\$ 8,480,454	\$ 8,022,183
Sales and motor fuel taxes payable	1,546,545	1,301,080
Dividends payable	226,011	229,234
Income taxes payable	1,336,893	777,194
	<u>11,589,903</u>	<u>10,329,691</u>

Long-Term Debt

Mortgages payable	159,344	185,835
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Minority Interest in Subsidiary Company	29,800	29,800
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Shareholders' Equity

Capital Stock

Preference shares having a par value of \$100 each of which 17,357 shares are 5% cumulative redeemable sinking fund preference shares (Note 2)		
Authorized	29,357 shares	
Issued	17,357 shares	
Ordinary non-voting shares of no par value		
Authorized	1,375,000 shares	
Issued	688,780 shares	
Common voting shares of no par value (Note 3)		
Authorized	2,500,000 shares	
Issued	1,250,000 shares	
	<u>6,840,450</u>	<u>7,105,250</u>

Reserve for Contingencies	265,000	265,000
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Earnings Retained and Used in the Business	21,842,643	19,528,038
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	<u>28,948,093</u>	<u>26,898,288</u>
	<u>\$40,727,140</u>	<u>\$37,443,614</u>

APPROVED ON BEHALF OF THE BOARD

JAMES G. THOMPSON, *Director*

FRED L. NORWOOD, *Director*

S U P E R T E S T P E T R O L E U M A N D S U B S I D I A

Consolidated Statement of Earnings for the year ended December 31st. 1966

	1966	1965
Earnings From Operations		
Before Undernoted Charges	\$ 6,012,975	\$ 5,139,111
DEDUCT		
Provision for depreciation and depletion	1,973,280	2,023,289
Provision for taxes on income	1,973,832	1,228,849
Minority interest	1,490	1,540
	<hr/> 3,948,602	<hr/> 3,253,678
NET EARNINGS	2,064,373	1,885,433
GOODWILL, TRADEMARKS AND		
ORGANIZATION EXPENSES WRITTEN OFF	100,000	118,226
	<hr/>	<hr/>
TRANSFERRED TO EARNINGS RETAINED		
AND USED IN THE BUSINESS	\$ 1,964,373	\$ 1,767,207
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Consolidated Statement of Earnings retained and used in the business for the year ended December 31st, 1966

Balance at Beginning of Year	\$19,528,038	\$15,597,638
Net earnings for the year	1,964,373	1,767,207
Capital gain on disposals (including expropriations)	850,619	2,222,552
Reserve for inventory valuation no longer required	—	347,989
Tax paid undistributed income	—	100,012
	<hr/> 22,343,030	<hr/> 20,035,398
DIVIDENDS DECLARED		
Preference shares	93,497	100,470
Ordinary and common shares	406,890	406,890
	<hr/> 500,387	<hr/> 507,360
Balance at End of Year	\$21,842,643	\$19,528,038
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C O R P O R A T I O N , L I M I T E D

Y C O M P A N I E S

Consolidated Statement of Source and Application of Funds for the year ended December 31, 1966

SOURCE OF FUNDS

From operations

Net earnings for the year	\$ 2,064,373	
Non-cash charges for —		
Depreciation and depletion	1,973,280	
	<hr/>	
	4,037,653	
Proceeds from disposals of fixed assets	1,911,869	
Sundry items (net)	225,907	\$ 6,175,429
	<hr/>	

APPLICATION OF FUNDS

Acquisition of property, plant and equipment	4,678,562	
Dividends declared	500,387	
Special refundable tax	106,366	
Redemption of preference shares	264,800	\$ 5,550,115
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INCREASE IN WORKING CAPITAL		<hr/> <hr/> \$ 625,314
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Notes to Consolidated Financial Statements December 31st, 1966

1. POLICIES GOVERNING DEPRECIATION AND DEPLETION

Producing properties

The company follows the practice of charging exploration expenses and the carrying costs applicable to non-producing properties to income as incurred. Property acquisition costs are capitalized and charged to income if the property is subsequently surrendered. The costs of productive wells are capitalized and the costs of non-productive wells are charged to income when the wells are determined to be dry. The cost of producing properties and producing development costs are amortized on a unit of production method based upon estimated recoverable reserves of oil and gas as determined by company engineers.

Other plant and equipment

Depreciation of physical assets is charged to earnings at unreduced rates allowed by the Income Tax Act which are considered adequate to extinguish the cost at the end of their estimated useful life.

- The 5% cumulative redeemable sinking fund preference shares are callable at \$103 each except when redeemed for sinking fund purposes when the price is \$100 per share.
- Each common share participates in earnings at the rate of 1/10 of the amount paid or attributable to each ordinary share.
- The company paid \$7,500 in directors' fees during the year.

Auditors' Report

TO THE SHAREHOLDERS
SUPERTEST PETROLEUM CORPORATION, LIMITED

We have examined the accompanying consolidated financial statements of Supertest Petroleum Corporation, Limited and subsidiary companies for the year ended December 31, 1966 comprising the consolidated balance sheet as at that date and the consolidated statements of earnings, earnings retained and used in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

London, Ontario.
March 10, 1967.



Kathy Whitworth, winner of the Supertest Open, the first Ladies' Professional Golf Association Tournament held in Canada. She was also named Lady athlete of the year in the United States.



Canada's All Canadian Company

